

Anticipated acquisition by Glatfelter Lydney Ltd of Metallised Products Limited

ME/3369/07

The OFT's decision on reference under section 33(1) given on 20 November 2007. Full text of decision published 10 November 2008.

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**Please note that square brackets indicate figures or text which have been deleted or replaced at the request of the parties for reasons of commercial confidentiality.**

1. **Glatfelter Lydney Ltd (Glatfelter)** is a UK subsidiary of P.H. Glatfelter Company, a global manufacturer of specialty papers and engineered products. Its products include vacuum coated products (also referred to as metallised products), such as metallised paper and film that it manufactures at its facility in Gernsbach, Germany.
2. **Metallised Products Limited (MPL)** is active in the production and sale of metallised papers which it produces in Caerphilly, UK. In the year ended 31 March 2007, MPL's UK turnover was £2.7 million.

**TRANSACTION**

3. Glatfelter intends to acquire MPL. A satisfactory Merger Notice was submitted on 24 October 2007. The statutory deadline expires on 20 November 2007.

## JURISDICTION

4. As a result of this transaction, Glatfelter and MPL will cease to be distinct within the meaning of section 26(1) of the Act. The parties overlap in the supply of metallised paper in the UK with a combined share of supply exceeding 25 per cent. Thus, the share of supply test in section 23 of the Enterprise Act 2002 (the Act) is met. The OFT therefore believes that it is or may be the case that arrangements are in progress or in contemplation which, if carried into effect, will result in the creation of a relevant merger situation.

## RELEVANT MARKETS

### Vacuum coated products (metallised products)

5. The merging parties overlap in the production of metallised products by way of vacuum metallising. This is a coating process during which aluminium is evaporated under vacuum conditions and condensed onto a continuously moving web of a base material (such as paper or film<sup>1</sup>), leaving a thin layer of aluminium on the base material.
6. Metallised products are primarily used for labelling and packaging. The merging parties sell their metallised products to industrial customers, usually converters such as printers and laminators, who sell the 'converted' products (for example metallised labels, inner-liner in cigarette packets or crisps bags) to end-users *inter alia* in the beverage, cigarette and food industry. In some cases the parties sell directly to those end-users with in-house printing facilities.
7. Glatfelter submits that the relevant product scope is the market for vacuum coated products (that is, metallised products) without any further differentiation depending on base materials or end-user applications. It argues that there is a high degree of supply-side substitutability as the same production equipment is used for the vacuum metallisation of various different base materials for a large number of end applications with short switching time (a few hours) and negligible switching cost.

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<sup>1</sup> According to Glatfelter, approximately 97 per cent of all vacuum coated products are accounted for by vacuum coated film and paper. Other base materials include cardboard and textiles.

8. Glatfelter also states that vacuum coated products (that is, metallised products) based on film and paper are often substitutable from the demand-side perspective as converters (its immediate downstream customers) often convert both metallised paper and films for the same end use applications (for example labels).
9. The replies from both customers and competitors have been varied due to the large range of end uses and applications. However, the question whether the market for metallised products should be segmented on the basis of base material or end use applications can be left open as the proposed transaction raises no competition concerns even in the event of narrower market definitions.

### **Geographic scope**

10. The merging parties suggest that the relevant geographic scope for the manufacture and supply of vacuum coated products is EEA wide.
11. Glatfelter and MPL supply metallised products to customers globally from their manufacturing facilities in Germany and the UK, respectively. Customers within the EEA source internationally. For example, the parties estimate that approximately 72 per cent of vacuum coated products sold to UK customers in 2006 were produced abroad. All other large suppliers are active on a European if not a worldwide level.
12. On the basis of the above evidence which has been corroborated by third parties, the OFT believes that the relevant geographic scope for the manufacture and supply of metallised products is at least EEA wide. It may even be wider since some customers have acknowledged that at least one Chinese supplier could soon be considered a suitable alternative to the merging parties and other competitors within the EEA.

### **HORIZONTAL ISSUES**

13. The merging parties overlap in the production of metallised products, in particular, in metallised paper but not film (MPL is not active in the vacuum coating of film). The merging parties do not overlap in the supply of metallised paper for gift-wrap or cigarette inner-liner (Glatfelter does not supply for those end-use applications) and their overlap in the supply for packaging is negligible.

14. The merging parties estimate their combined market share in metallised paper in Europe<sup>2</sup> to be [20-30] per cent (by volume)<sup>3</sup> with an increment of [10-20] per cent. The next largest competitor's estimated market share is 14 per cent with at least two other competitors having estimated market shares between 8 and 12 per cent. The OFT believes, on the basis of the evidence before it, that post-merger there are at least five credible alternative competitors to the parties, which will continue to confer a sufficient competitive constraint on the merging parties post merger.
15. In addition, post-merger, the OFT believes that producers of alternative types of materials or technologies would also confer some post-merger indirect competitive constraint on the merged entity. While it has not been necessary to conclude on the relevant product scope or whether these alternative types of materials or technologies would be included in the candidate frame of reference, the OFT believes, based on independent market research<sup>4</sup> and some replies from competitors that there are advances in competitive technologies which have and will have more and more impact on the sector. These technologies include: the use of metallic pigmented inks, 'no-label' look, shrink/stretch sleeve labelling, plain paper labels with adhesive, paper/foil laminates and hot/cold stamping foils.
16. The only concern raised by a small number of customers relates to the production of metallised paper for labels used in the beverage and brewing industry. Their concern was that the merging parties are each other's closest competitors in the supply of metallised paper for this end-use in the UK. However, the merged entity will continue to face competition from a number of other producers of metallised paper for beer labels. In addition, beer labels are produced from many different base materials and are available in a variety of forms, including white labels, self adhesive labels, hot foil laminated labels and direct printed labels as well as metallised paper and film labels. Accordingly, the OFT has found no evidence to suggest that customers would not be able to source their metallised paper requirements for the beverage and brewing industry from other suppliers and/or from other types of materials.

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<sup>2</sup> Including EEA, Turkey, Russia, Switzerland and Eastern Europe.

<sup>3</sup> On European demand by value the estimated combined market share is [20-30] per cent.

<sup>4</sup> Vacuum Coated Papers & Films: World Sourcebook 2007 by Alexander Watson Associates (AWA Report).

## **THIRD PARTY VIEWS**

17. There was no response to the OFT's Invitation to Comment. The majority of third parties (both customers and competitors) contacted by the OFT were unconcerned. The only concern raised was in relation to the manufacture and supply of metallised paper for the brewing industry which has been addressed above.

## **ASSESSMENT**

18. This proposed merger relates to the manufacture of metallised products, in particular metallised paper, where the merging parties overlap.
19. The question whether the market for metallised products should be segmented on the basis of base material (paper, film, cartonboard or textiles) or end use applications (for examples labels or packaging) can ultimately be left open as the proposed transaction raises no competition concerns even in the event of narrow market definitions. The relevant geographic scope is at least EEA (if not wider) as the merging parties each supply to different EEA countries from a single factory in Germany (Glatfelter) and the UK (MPL).
20. The merging parties estimate their combined market share in metallised paper in Europe to be [20-30] per cent (by volume) increment [10-20] per cent. The three next largest competitors have estimated market shares between 8 and 14 per cent. Post-merger, the OFT believes there will be at least five sizeable credible competitors that will continue to impose sufficient competitive constraint on the merged entity in the supply of metallised products, including metallised paper for labels for the beverage and brewing industry.
21. In addition, the merged entity will continue to face competition from producers of alternative types of materials. The OFT believes, on the basis of the nearly unanimous responses from customers, competitors and independent market research that other processes and alternatives will continue to offer some constraint.
22. Consequently, the OFT does not believe that it is or may be the case that the merger may be expected to result in a substantial lessening of competition within a market or markets in the United Kingdom

## **DECISION**

23. This merger will therefore not be referred to the Competition Commission under section 33(1) of the Act.